

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

INQUIRY CONCERNING COMPETITIVE
PRODUCTS FUND

Docket No. PI2013-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO COMMISSION INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides its responses to the questions contained in Commission Information Request No. 1, issued on July 19, 2013. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1

Please review the discussion of the Competitive Products Fund in the Annual Compliance Determination Report Fiscal Year 2012, at 174-75. It notes that less information on the fund was publicly available than in prior years. To assist in future transparency and accountability, can the Postal Service suggest one or more ways to improve the quality of information on the funds available for investment in Competitive Products? In answering this question, the Postal Service is to focus on its accounting and reporting practices, rather than its current financial situation.

RESPONSE:

The cited pages from the Annual Compliance Determination note two differences in FY 2012 as compared to prior years: (1) the Postal Service did not file an FY 2012 federal income tax statement, as the calculation of federal income tax was included in the Annual Compliance Report; and (2) the Competitive Products Fund was not listed on the Department of the Treasury's Monthly Statement of Public Debt.

In regard to the first, the difference is simply one of form, not of substance. The information required by 39 C.F.R. 3060.41 by January 15, 2013 was contained in the FY 2012 Annual Compliance Report, filed on December 28, 2012 (along with the additional information set forth in the competitive products income statement, summary of financials, list of property and equipment assets, and statement of allocated assets and liabilities). Therefore, the Commission received the same information that it received in previous years.

In regard to the second difference, to the extent that there is an investment of the Competitive Products Fund monies, it will be reflected in the Department of the Treasury's Monthly Statement of Public Debt.

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Question 2

The Public Inquiry initiated today by the Commission focuses on three developments that occurred in the past fiscal year: transfers of amounts from the Postal Service Fund to the Competitive Products Fund, the use of amounts from the Competitive Products Fund to prepay competitive products' future years' institutional costs, and the transfer of amounts from the Postal Service Fund to the Competitive Products Fund to pay the assumed federal income tax.

- a. Did the Postal Service consult with the Secretary of the Treasury or his designee on these payments and transfers?
- b. If yes, did the Secretary or his designee provide a written opinion on whether any or all of these actions were consistent with Section 2011 of Title 39 and/or 39 CFR part 3060? If so, please provide all such opinions.
- c. Please explain why the Postal Service considers that each of these payments and transfers is consistent with Section 2011 of Title 39 and/or 39 CFR part 3060.

RESPONSE:

- a. No, because the transfer did not constitute an investment or deposit to be held, but rather represented a payment of expenses.
- b. Not applicable.
- c. The Commission's inquiry appears to stem from the assumption that revenues associated with competitive products automatically flow into the Competitive Products Fund as they are received. In reality, it is impossible to separate the daily revenues received by the Postal Service into competitive and non-competitive categories. All revenues received on a daily basis go into the Postal Service Fund; competitive revenues must later be transferred from the Postal Service Fund into the Competitive Products Fund.¹ The first and third types of transfers noted in the question are

¹ At the close of the fiscal year, the Postal Service calculates, on a net basis, the amount of money that should be in the Competitive Products Fund, and that amount is then transferred into the Competitive Products Fund from the Postal Service Fund.

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therefore fully consistent with Section 2011, because there is no way for competitive revenues to enter the Competitive Products Fund except from the Postal Service Fund.

As to the second type of transfer noted in the question, namely the use of amounts from the Competitive Products Fund to prepay competitive products' share of future years' institutional costs, such a transfer is authorized by the plain meaning of Section 2011(a)(2).

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Question 3

Section 2011 of title 39 establishes the Competitive Products Fund, which is to be used for the payment of costs attributable to competitive products and all other costs of the Postal Service to the extent allocable to competitive products. Revenues from competitive products and other amounts associated with competitive products are to be deposited in the Competitive Products Fund. 39 U.S.C. 2011 (a), (b).

- a. Please confirm that competitive products' volumes and revenues are calculated on a monthly basis.
- b. Please explain the frequency and process by which attributable costs related to competitive products are calculated.

RESPONSE:

- a. Confirmed. This information forms part of the USPS Preliminary Financial Information (Unaudited) report, which is filed monthly with the Commission.
- b. Attributable costs are calculated once, after the close of the fiscal year, as part of the Annual Compliance Report.

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Question 4

The USPS FY 2013 Integrated Financial Plan included a FY 2013 capital commitment amount of \$1.0 billion.² In FY 2011, the Postal Service's actual capital expenditures were \$1.2 billion, and in FY 2012, the Postal's Service actual capital expenditures were \$0.8 billion. *Id.*

- a. Please identify the portion of the FY 2013 \$1.0 billion capital commitment apportioned to competitive products. Please identify the portion of the FY 2013 \$1.0 billion capital commitment apportioned to market dominant products. In the response, please explain the methodology used to derive the competitive products' portion and the market dominant products' portion of the capital commitment.
- b. Please identify the portion of the Postal Service's actual capital expenditures in FY 2011 and FY 2012 that was apportioned to competitive products. Please identify the portion of the Postal Service's actual capital expenditures in FY 2011 and FY 2012 that was apportioned to market dominant products. In the response, please explain the methodology used to determine the competitive products' portion and the market dominant products' portion of the capital commitment.
- c. Beginning in October 2012, (FY 2013), the Competitive Products Fund showed a zero balance on the National Trial Balance and had been eliminated from Table III of the Monthly Statement of Public Debt. Please identify any funds the Postal Service has available to pay for capital expenditures that benefit competitive products in future years.

RESPONSE:

- a-b. \$0. None of these capital commitments and expenditures are directed exclusively toward competitive products. To the extent that they benefit competitive products, such benefit is paid for through the institutional cost contribution requirement.
- c. Given the long-term planning that precedes capital expenditures, funds would be available from the Competitive Products Fund if the Postal Service were to decide to make capital expenditures directed exclusively toward competitive products.

² United States Postal Service, Fiscal Year 2013 Integrated Financial Plan, November 23, 2012, at 5.

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Question 5

The Postal Service's calculation of the assumed federal income tax is due no later than the January 15 following the close of the fiscal year. 39 CFR 3060.40. The Postal Service's other reports required by 39 CFR part 3060 are due no later than 90 days after the close of the fiscal year. *Id.* section 3060.20.

- a. Please explain whether having a single deadline for the calculation of the assumed federal income tax and the reports required by 39 CFR part 3060 would impact the ease, accuracy, and/or transparency of the reporting requirements. In the response, please detail the benefits and burdens, if any, that a single deadline would create.
- b. Please confirm that the Postal Service is able to calculate the assumed federal income tax by the deadline for the other reports required by 39 CFR part 3060. If not confirmed, please explain the specific challenges that do not make an earlier tax calculation possible.

RESPONSE:

As noted in the response to Question 1 above, the Postal Service already provides the calculation of the assumed federal income tax in the Annual Compliance Report, which is due 90 days after the close of the fiscal year.³

³ The Commission's question concerns only the calculation of the assumed federal income tax, and not its transfer. To be clear, the actual transfer does not occur immediately upon the calculation. Rather, the Postal Service completes the transfer by January 15th, as the paperwork necessary to effect it cannot be completed on the same day that the calculation is made. The transfer deadline is statutory.